

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: Original
POSITION: Oppose

BILL NUMBER: AB 1816
AUTHOR: Beall, Jim

BILL SUMMARY: Tax equity allocation formula: County of Santa Clara.

Beginning in 2013-14, this bill would repeal the provision of current law that requires the cities of Cupertino, Los Altos Hills, Monte Sereno, and Saratoga to absorb the full Educational Revenue Augmentation Fund (ERAF) impact of the increased Tax Equity Allocation (TEA) amount they were provided by Chapter 342, Statutes of 2006 (AB 117, Cohn).

FISCAL SUMMARY

The Department of Finance estimates that absolving the cities of their responsibility for backfilling the ERAF impact of their increased TEA allocation could result in higher Proposition 98 General Fund costs of approximately \$400,000 in 2013-14. Beyond 2013-14, the General Fund costs will continuously grow until 2017-18 where the General Fund cost is estimated to exceed \$2 million. Additionally, this bill imposes new duties on Santa Clara County for allocating property tax revenues. Therefore, a mandate may exist resulting in additional General Fund costs.

COMMENTS

Finance opposes this bill for the following reasons:

- This bill could result in higher Proposition 98 General Fund costs of approximately \$400,000 in 2013-14, and eventually reaching \$2 million annually by 2017-18.
- The four cities claim they are treated inequitably, since they are the only TEA recipients required to backfill the ERAF for the costs associated with their TEA allocation. We note, however, that these same cities supported Chapter 342, Statutes of 2006, which predicated their larger TEA allocation on their willingness to backfill the impact this transaction would have on the ERAF. Given the current General Fund situation, the state cannot afford to absolve these cities of their prior commitment.
- This bill imposes new duties on Santa Clara County for allocating property tax revenues. Therefore, a mandate may exist resulting in additional General Fund costs needed to reimburse Santa Clara County.

ANALYSIS

1. Programmatic Analysis

Existing Law requires counties to shift some of their own property tax revenues to 30 cities which never levied a property tax before the implementation of Proposition 13 (no-property tax cities) and to about 60 cities which levied only low property tax rates (low-property tax cities). The payments by the counties to the no/low cities are called tax equity allocations, or TEAs. TEA payments to the no/low

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Department Deputy Director		Date	
Governor's Office:	By:	Date:	Position Approved _____ Position Disapproved _____
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ANALYSIS (continued)

cities are generally equal to seven percent of the property tax revenues generated within their city limits.

An agreement among the County of Santa Clara and the cities of Cupertino, Los Altos Hills, Monte Sereno, and Saratoga, codified in state law in 1989, resulted in those cities receiving only 55 percent of the TEA funds they would have otherwise received. The purpose of that agreement was to provide additional funding for county trial courts serving those cities.

In accordance with a new agreement between the county and the cities, Chapter 342, Statutes of 2006, repealed the 55 percent limitation contained in the previous law, and restored full TEA allocations to the affected cities. Chapter 342 did, however, require the cities to absorb any impact the shift in revenues had on the county ERAF. The negative ERAF impact stems from the fact that TEA allocations are removed from a county's base property tax total when the county's ERAF amount is calculated each year. This reduces the amount shifted to the ERAF each year, since the ERAF amount is being calculated based on a lower amount.

This bill would repeal the provisions that require the four cities to absorb the full ERAF impact of their increased TEA allocation. In doing so, it would release the cities from the tacit agreement they made to pay this amount when they supported Chapter 342, Statutes of 2006. The resulting impact to the ERAF will be incremental by requiring the Santa Clara County Auditor to reduce the amount of property tax revenues required to be allocated to the county ERAF by a specified percentage of the ERAF reimbursement amount. Specifically, the cities would remit to the ERAF 80 percent of the currently required amount in the first year, 60 percent in the second year, 40 percent in the third year, 20 percent in the fourth year, and zero percent in the fifth year and each fiscal year thereafter.

This bill prohibits the Santa Clara County Auditor from reducing the amounts allocated to the ERAF in a fiscal year in which the amount of state General Fund required to be applied to school and community college districts is determined pursuant to Test 1 of Proposition 98.

This bill imposes new duties on Santa Clara County for allocating property tax. Therefore, if the Commission of State Mandates determines the bill contains costs mandated by the state, Santa Clara County will be reimbursed for these costs.

2. Fiscal Analysis

Finance estimates that absolving the cities of their responsibility for backfilling the ERAF impact of their increased TEA allocation could result in higher Proposition 98 General Fund costs of approximately \$400,000 in 2013-14. Due to the incremental component of this bill and the probability of property tax growth, the General Fund cost will significantly grow each fiscal year until 2017-18. Beyond 2017-18 the General Fund cost will only grow in relation to property tax growth. Assuming a one percent growth to property tax and factoring in the incremental component of this bill, the General Fund cost will exceed \$2 million in 2017-18.

Additionally, this bill imposes new duties on Santa Clara County for allocating property tax revenues. Therefore, a mandate may exist resulting in additional General Fund costs needed to reimburse Santa Clara County.

BILL ANALYSIS--(CONTINUED)**Form DF-43****AUTHOR****AMENDMENT DATE****BILL NUMBER**

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)					
	LA	(Dollars in Thousands)					
	CO	PROP					Fund
	RV	98	FC	2011-2012	FC	2012-2013	FC 2013-2014 Code
6100/Education	LA	Yes	C	--	C	--	C 300 0001
6870/Comm College	LA	Yes	C	--	C	--	C 100 0001